

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TARGET CANADA CO., TARGET CANADA HEALTH CO., TARGET CANADA MOBILE GP CO., TARGET CANADA PHARMACY (BC) CORP., TARGET CANADA PHARMACY (ONTARIO) CORP., TARGET CANADA PHARMACY CORP., TARGET CANADA PHARMACY (SK) CORP., AND TARGET CANADA PROPERTY LLC

**THIRTY-NINTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

MAY 8, 2018

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1.0 INTRODUCTION

- 1.1 On January 15, 2015, Target Canada Co. (“**TCC**”) and those companies listed in Appendix A (collectively, the “**Applicants**”), together with the Partnerships also listed in Appendix A (the “**Partnerships**”, and collectively with the Applicants, the “**Target Canada Entities**”), applied for and were granted protection by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to an Order of this Court dated January 15, 2015, Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed Monitor of the Target Canada Entities in the CCAA proceedings (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 On February 11, 2015, this Court issued the Amended and Restated Initial Order (hereinafter, unless the context otherwise requires, the “**Initial Order**”), which incorporates certain changes to the Initial Order granted January 15, 2015 that were described in the Second Report of the Monitor dated February 9, 2015.
- 1.3 In connection with the CCAA Proceedings, the Monitor has provided to this Court thirty-eight reports and three supplementary reports (collectively, the “**Monitor’s Reports**”). A&M has also provided to this Court the Pre-Filing Report of the Proposed Monitor (the “**Pre-Filing Report**”) dated January 14, 2015 (together with the Monitor’s Reports, the “**Prior Reports**”). The Prior Reports, the Initial Order and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor’s website at www.alvarezandmarsal.com/targetcanada.

1.4 As described in certain of the Prior Reports, and most recently in the Thirty-Eighth Report of the Monitor (the “**Thirty-Eighth Report**”, attached hereto as Appendix B (without appendices)):

- (a) on June 2, 2016, the Court granted the Sanction and Vesting Order, which among other things, ordered and/or declared that the Second Amended and Restated Joint Plan of Compromise and Arrangement dated May 19, 2016 (the “**Second Amended Plan**” or the “**Plan**”) was sanctioned and approved pursuant to Section 6 of the CCAA. A copy of the Second Amended Plan is available on the Monitor’s website;
- (b) on June 28, 2016 (the “**Plan Implementation Date**”), the Monitor received written notice from the Target Canada Entities and the Plan Sponsor that the conditions precedent to implementation of the Second Amended Plan as set out in section 8.3 thereof had been fulfilled or waived. As such, in accordance with the Second Amended Plan and the Sanction and Vesting Order, the Monitor: (i) delivered the Monitor’s Plan Implementation Date Certificate to the Target Canada Entities; (ii) filed the Monitor’s Plan Implementation Date Certificate with the Court; and (iii) posted a copy of same to the Monitor’s website. The Monitor also provided a copy to the Service List;
- (c) in accordance with the Second Amended Plan and the Sanction and Vesting Order, on the Plan Implementation Date: (i) TCC and PropCo funded, in trust, approximately \$793.0 million and \$77.0 million, respectively, into several “cash pool” and “reserve accounts”; (ii) Target Corporation, as Plan Sponsor, funded, in trust, approximately \$25.5 million into the Landlord Guarantee Enhancement

Cash Pool Account and \$7.5 million into the Landlord Non-Guarantee Creditor Equalization Cash Pool Account; and (iii) \$34.1 million was transferred from PropCo to the Landlord Guarantee Enhancement Cash Pool Account;

- (d) on June 29 and 30, 2016, TCC issued cheques and wire payments totalling approximately \$672.5 million to Unaffected Creditors, Affected Creditors with Proven Claims, and Landlord Entities entitled to distributions from the Landlord Guarantee Enhancement Cash Pool Account and the Landlord Non-Guarantee Creditor Equalization Cash Pool Account (collectively, the “**Initial Distributions**”). The Initial Distributions to Affected Creditors represented interim distributions of approximately 55.34% of such Affected Creditors’ Proven Claims. Subsequent interim distributions totaling approximately \$830,000 were also made prior to September 30, 2016 to five claimants whose Claims were resolved in accordance with the Claims Procedure Order subsequent to the Plan Implementation Date;
- (e) on or about October 18, 2016, TCC issued cheques and wire payments totalling approximately \$87.5 million to Affected Creditors with Proven Claims (the “**Second Interim Distributions**”) and Target Canada Property LLC issued a payment of approximately \$3.0 million to the Plan Sponsor.¹ The Second Interim Distributions represented further distributions of 12.65% of such Affected Creditors’ Proven Claims, and when combined with the Initial Distributions, equated to aggregate interim distributions to Affected Creditors of approximately 67.99% of such Affected Creditors’ Proven Claims; and

¹ This payment was made in accordance with section 5.6(b)(ii) of the Plan, and is in respect of the Plan Sponsor’s pro-rata share of proceeds relating to the Plan Sponsor Recovery Limit Reserve.

(f) on or about October 10, 2017, TCC issued cheques and wire payments totalling approximately \$64.1 million to Affected Creditors with Proven Claims (the “**Third Interim Distributions**”) and Target Canada Property LLC issued a payment of approximately \$2.1 million to the Plan Sponsor.² The Third Interim Distributions represented further distributions of 9.05% of such Affected Creditors’ Proven Claims, and when combined with the Initial Distributions and the Second Interim Distributions, equate to aggregate interim distributions to Affected Creditors to-date of approximately 77.04% of such Affected Creditors’ Proven Claims.

1.5 The purpose of this Thirty-Ninth Report of the Monitor (the “**Thirty-Ninth Report**”) is to provide this Court and stakeholders with information regarding the following:

- (a) an update on the cash balances held in the “cash pool” and “reserve” accounts that were established in accordance with the Second Amended Plan;
- (b) the current status of the Claims Process; and
- (c) the Applicants’ motion for an order substantially in the form attached to the Applicants’ Motion Record dated May 8, 2018 seeking an order extending the Stay Period to December 14, 2018 (the “**Stay Extension Order**”).

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Thirty-Ninth Report, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Target Canada Entities and Target Corporation, and discussions with

² This payment was made in accordance with section 5.6(b)(ii) of the Plan, and is in respect of the Plan Sponsor’s pro-rata share of proceeds relating to the Plan Sponsor Recovery Limit Reserve.

management of the Target Canada Entities and Target Corporation (collectively, the “**Information**”).

2.2 The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information.

2.3 Unless otherwise indicated, capitalized terms not otherwise defined in this Thirty-Ninth Report are as defined in the Prior Reports, the Second Amended Plan and the Initial Order.

2.4 Unless otherwise stated, all monetary amounts contained in this Thirty-Ninth Report are expressed in Canadian dollars.

3.0 UPDATE ON THE “CASH POOL” AND “RESERVE” ACCOUNTS

3.1 The various “cash pool” and “reserve” accounts as at the Plan Implementation Date, and after the Initial Distributions, Second Interim Distributions, Third Interim Distributions and other administrative disbursements, are summarized below (with the “Balance January 8, 2018” column being the balances as at the date of the Thirty-Eighth Report):

| (\$ in 000's CAD) | Receipts/ Subsequent Distributions/ Administrative Disbursements | | | Balance September 15, 2016 | Transfers | | Receipts/ Subsequent Distributions/ Administrative Disbursements | Balance January 8, 2018 | Receipts/ Subsequent Distributions/ Administrative Disbursements | |
|--|--|----------------------|------------------------------|----------------------------|-----------------------------------|--------------------------------|--|-------------------------|--|------------------------------|
| | Balance on PID | Initial Distribution | Administrative Disbursements | | Prior to Subsequent Distributions | Second and Third Distributions | | | Balance April 27, 2018 | Administrative Disbursements |
| Target Canada Co. | | | | | | | | | | |
| TCC Cash Pool Account | 441,220 | (441,039) | 700 | 881 | 89,556 | (151,560) | 63,961 | 2,838 | 3,653 | 6,491 |
| TCC Disputed Claims Reserve Account | 197,907 | - | (828) | 197,079 | (89,556) | - | (77,192) | 30,332 | (4,421) | 25,911 |
| Administrative Reserve Account [1] | 12,900 | (177) | (1,869) | 10,854 | - | - | (6,326) | 4,528 | (1,994) | 2,535 |
| Landlord Guarantee Creditor Base Claim Cash Pool Account | 140,745 | (140,745) | - | - | - | - | - | - | - | - |
| Landlord Guarantee Enhancement Cash Pool Account | 59,532 | (59,532) | - | - | - | - | - | - | - | - |
| Landlord Non-Guarantee Creditor Equalization Cash Pool Account | 7,521 | (7,521) | - | - | - | - | - | - | - | - |
| Target Canada Co. Balance | 859,825 | (649,013) | (1,996) | 208,815 | - | (151,560) | (19,556) | 37,699 | (2,762) | 34,937 |
| Target Canada Property LLC | | | | | | | | | | |
| PropCo Cash Pool Account | 10,548 | (10,533) | - | 15 | - | - | - | 15 | 795 | 810 |
| PropCo Disputed Claims Reserve Account | 8,895 | - | - | 8,895 | - | - | - | 8,895 | - | 8,895 |
| Plan Sponsor Recovery Limit Reserve Account | 23,427 | (12,966) | - | 10,461 | - | (5,084) | - | 5,378 | - | 5,378 |
| Target Canada Property LLC Balance | 42,870 | (23,499) | - | 19,371 | - | (5,084) | - | 14,288 | 795 | 15,083 |
| TOTAL | 902,695 | (672,512) | (1,996) | 228,186 | - | (156,644) | (19,556) | 51,987 | (1,967) | 50,020 |

Notes:

[1] The Administrative Reserve Account balance includes \$25,000 withheld from a Claim distribution in accordance with a Charging Order (defined below) in favour of Bougadis, Chang LLP on account of its legal fees pending its agreement with the claimant on the amount of the legal fees or determination by an assessment officer.

3.2 The changes to the above table relative to the similar table included in the Thirty-Eighth Report are:

- (a) TCC Cash Pool Account: The cash balance increased by approximately \$3.7 million due primarily to the resolution of a disputed pharmacy claim resulting in approximately \$4.2 million being moved from the TCC Disputed Claims Reserve Account to the TCC Cash Pool Account. The increase was partially offset by decreases to the account for: (i) the payment of a sales tax reassessment related to one of the Target Canada Entities in the amount of approximately \$485,000 (offsetting a refund that had previously been received and deposited into the TCC Cash Pool Account); and (ii) the distribution on a late-filed claim of approximately \$15,000.
- (b) TCC Disputed Claims Reserve Account: The cash balance decreased by approximately \$4.4 million related to: (i) the resolution and payment of distributions of approximately \$198,000 on a previously Disputed Claim (claimants with subsequently resolved Claims have received their Initial, Second and Third Interim Distributions totalling approximately 77.04%, with the balance being transferred to the TCC Cash Pool Account); (ii) the corresponding transfer

out of approximately \$4.2 million to the TTC Cash Pool Account; (iii) a transfer of \$25,000 to the Administrative Reserve Account in respect of a holdback from a resolved claim distribution in accordance with a Charging Order (the “**Charging Amount**”), pending an agreement between the Claimant and its prior counsel or determination by an assessment officer on the outstanding legal fees incurred by the Claimant; (iv) in accordance with the Fee Motion Order described below, the payment of approximately \$28,000 to Pharmacist Franchisees in addition to the amounts released from the Administrative Reserve Account; and (v) in accordance with the Fee Motion Order described below, a payment of approximately \$19,000 to Strosberg Sasso Sutts LLP, in its capacity as Court-appointed representative counsel for pharmacist franchisees (“**Pharmacist Representative Counsel**”), in connection with TCC’s agreed contribution for fees, disbursements and taxes incurred by pharmacist franchisees represented by Pharmacist Representative Counsel.³

- (c) Administrative Reserve Account: The cash balance decreased by approximately \$2.0 million related primarily to: (i) administrative disbursements of \$1.2 million for professional fees and Shared Services; and (ii) the release of the 10% holdback, totalling approximately \$798,000, that was being withheld on Pharmacist Franchisee distributions in connection with the Fee Motion Order described below.

³ Referred to as the “TCC Contribution” in the Monitor’s Thirty-Seventh Report dated September 27, 2017 relating to the Fee Motion.

- (d) Propco Cash Pool Account: The cash balance increased by approximately \$795,000 on account of a Quebec Sales Tax refund collected from Revenu Quebec.

3.3 The Monitor has prepared an updated illustrative range of estimated recoveries under the Second Amended Plan, which is summarized in the table below and is based on information available as at April 27, 2018 (the “**Illustrative Recoveries Analysis**”). The Illustrative Recoveries Analysis has been prepared based on the terms of the Second Amended Plan and the current status of Claims filed in the Claims Process. The Monitor cautions that the Illustrative Recoveries Analysis may change (which change could be material) as: (a) Unresolved Claims continue to be reviewed and assessed, including “marker claims” that have been filed for unliquidated or unknown amounts; and (b) the Claims Process continues to advance, including the resolution of Disputed Claims, in accordance with the Claims Procedure Order.

| | Illustrative Scenario #1 - LOW | Illustrative Scenario #2 - HIGH |
|--|-----------------------------------|------------------------------------|
| (\$ in 000's CAD) | | |
| PROPCO | | |
| ESTIMATED CASH AVAILABLE FOR DISTRIBUTION | | |
| Propco Cash | \$ 76,950 | \$ 76,950 |
| RQ Tax Refund Received | 795 | 795 |
| PROCEEDS AVAILABLE FOR DISTRIBUTION | <u>77,745</u> | <u>77,745</u> |
| CLAIMS FILED AGAINST PROPCO/PROPERTY LP | | |
| Total Third Party Claims Against Propco and Property LP | 13,112 | 10,533 |
| PropCo Intercompany Claims (recontributed into Landlord Guarantee Settlement Amount) | 34,081 | 34,081 |
| Estimated Payments under Plan Sponsor Propco Recovery Reserve Limit | 19,440 | 19,599 |
| ESTIMATED NET PROCEEDS AVAILABLE FOR TCC AFTER DISTRIBUTIONS | <u>11,112</u> | <u>13,532</u> |
| TARGET CANADA CO | | |
| ESTIMATED CASH AVAILABLE FOR DISTRIBUTION | | |
| Target Canada Co. Cash | 780,000 | 782,000 |
| CRA and RQ Tax Refunds Received | 9,182 | 9,182 |
| Other Receipts | 466 | 466 |
| Propco Cash (from above) | 11,112 | 13,532 |
| ESTIMATED PROCEEDS AVAILABLE FOR DISTRIBUTION | <u>800,760</u> | <u>805,180</u> |
| ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITORS | | |
| Secured Claims and Unaffected Creditor Claims | 60,242 | 60,242 |
| Convenience Class Claims - < \$25,000 | 5,993 | 5,993 |
| Convenience Class Opt-In - Claim Value < \$35,000 | 1,550 | 1,550 |
| TOTAL ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITOR CLAIMS | <u>67,785</u> | <u>67,785</u> |
| ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED AND CONVENIENCE CLASS CLAIMS | <u>732,975</u> | <u>737,395</u> |
| LANDLORD GUARANTEE CREDITOR SETTLEMENT AMOUNTS | | |
| Landlord Guarantee Creditor Base Claim Amounts (Pre-filing and Restructuring) | 140,745 | 140,745 |
| Landlord Guarantee Enhancement Amounts | 59,532 | 59,532 |
| Total Distribution to Landlord Guarantee Creditors | 200,276 | 200,276 |
| Less: | | |
| Plan Sponsor Contribution to the Landlord Guarantee Enhancement Cash Pool | (25,451) | (25,451) |
| Plan Sponsor Contribution from the PropCo Intercompany Claims (from above) | (34,081) | (34,081) |
| NET DISTRIBUTION TO LANDLORD GUARANTEE CREDITORS AFTER PLAN SPONSOR CONTRIBUTIONS | <u>140,745</u> | <u>140,745</u> |
| ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS | (A) <u>592,230</u> | <u>596,651</u> |
| ESTIMATED ALLOWABLE CLAIMS | | |
| Landlord Non-Guarantee Creditor Claim Amounts (Pre-Filing, Restructuring and Other) | 190,035 | 190,035 |
| Other Affected Creditor Claims | 415,198 | 414,698 |
| Total Affected Creditor Claims | 605,234 | 604,734 |
| Total Intercompany Claims | 108,464 | 108,464 |
| ESTIMATED ALLOWABLE TOTAL CLAIMS EXCLUDING SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS | (B) <u>713,697</u> | <u>713,197</u> |
| RECOVERY % (A/B) | 83.0% | 83.7% |

3.4 Based on the Illustrative Recoveries Analysis (and subject to the important qualifications noted in paragraph 3.3 above), the Monitor now estimates that Affected Creditors with Proven Claims will ultimately receive aggregate distributions under the Second Amended

Plan in the range of approximately 83.0% to 83.7%⁴ of such Affected Creditors' Proven Claims.

4.0 CLAIMS PROCESS UPDATE

4.1 The Monitor has provided an update on the status of the Claims Process in a number of the Prior Reports, including most recently in the Thirty-Eighth Report.

Status of Claims Review and Assessment

4.2 As at April 30, 2018, 1,759 Claims have been filed with the Monitor, totalling approximately \$2.6 billion, excluding Intercompany Claims and withdrawn claims, and including those claims filed with the Monitor in connection with the Late Claims Motion and subsequent to the Late Claims Order (as described and defined below). As summarized in the tables below:⁵

- (a) 1,750 Claims have been reviewed, reconciled, resolved and allowed (or deemed allowed or disallowed as the case may be), as the time for a Claimant to respond to a Notice of Revision or Disallowance (“**NRDA**”) issued by the Monitor has expired) (collectively, the “**Resolved Claims**”); and
- (b) nine Claims are subject to a Notice of Dispute (“**NOD**”) where a NOD has been received by the Monitor from the Claimant in response to a NRDA issued by the Monitor, which NOD remains unresolved (the “**NOD Stage**”) (collectively, the “**Unresolved Claims**”).

⁴ The estimated range of recovery does not include any potential refunds that may be received from the Canada Revenue Agency or Revenu Quebec.

⁵ The tables include late-filed claims that were the subject of the Late Claims Motion and those that have been permitted to be filed with the Monitor subsequent to the Late Claims Order.

4.3 In connection with the Monitor’s November 2016 motion for advice and directions regarding late claims (the “**Late Claims Motion**”), on March 1, 2017, the Court issued an order, among other things: (i) permitting certain identified late claims to be filed with the Monitor; and (ii) establishing the procedure for the filing of claims at this stage in the proceedings (the “**Late Claims Order**”). As described in the Thirty-Eighth Report, the Court has permitted nine late claimants to file claims for determination in the Claims Process.

4.4 Since the issuance of the Thirty-Eighth Report, one claimant submitted a de minimus late-filed claim to the Monitor and provided evidence in accordance with the Late Claims Order. In consultation with the debtor, this claim was allowed as filed.

4.5 As at April 30, 2018, a summary of the Resolved Claims and Unresolved Claims is as follows:

RESOLVED CLAIMS

| Category | Filed Amount | | Allowed | | | Deemed Disallowed | | | Total | |
|--------------|--------------|----------------------|-------------|----------------------|------------------------|-------------------|------------------|---------------|--------------|--------------------|
| | # | \$ | # | Filed \$ | Allowed \$ | # | Filed \$ | Allowed \$ | # | \$ |
| Landlord (a) | 96 | 1,855,279,112 | 86 | 1,855,279,100 | 338,293,548 | 10 | 12 | - | 96 | 338,293,548 |
| Vendor | 1421 | 549,448,488 | 1396 | 545,674,491 | 449,697,186 | 25 | 3,773,997 | - | 1,421 | 449,697,186 |
| Pharmacist | 95 | 159,934,118 | 95 | 159,934,118 | 26,541,098 | - | - | - | 95 | 26,541,098 |
| Government | 5 | 7,922,787 | 4 | 7,922,786 | 7,870,409 | 1 | 1 | - | 5 | 7,870,409 |
| Litigation | 69 | 9,835,332 | 59 | 8,755,267 | 617,333 | 10 | 1,080,066 | - | 69 | 617,333 |
| Employee | 62 | 869,677 | 18 | 536,484 | 381,286 | 44 | 333,193 | - | 62 | 381,286 |
| Other | 2 | 2 | - | - | - | 2 | 2 | - | 2 | - |
| Total | 1750 | 2,583,289,517 | 1658 | 2,578,102,246 | 823,400,860 (b) | 92 | 5,187,271 | - | 1,750 | 823,400,860 |

UNRESOLVED CLAIMS

| Category | Filed Amount | | Monitor Review | | NRDA Stage | | | NOD Stage | | | |
|--------------------|--------------|----------------------|----------------|----------|------------|----------|----------|-----------|--------------|----------|----------------------|
| | # | \$ | # | \$ | Filed | Allowed | | Filed | Allowed | NOD | |
| | | | | | # | \$ | \$ | # | \$ | \$ | \$ |
| Landlord | - | - | - | - | - | - | - | - | - | - | - |
| Vendor | - | - | - | - | - | - | - | - | - | - | - |
| Pharmacist | - | - | - | - | - | - | - | - | - | - | - |
| Government | 8 | 4,408 | - | - | - | - | - | 8 | 4,408 | - | 2,579,290 |
| Litigation | - | - | - | - | - | - | - | - | - | - | - |
| Employee | 1 | 1 | - | - | - | - | - | 1 | 1 | - | 1 |
| Other | - | - | - | - | - | - | - | - | - | - | - |
| Total | 9 | 4,409 | - | - | - | - | - | 9 | 4,409 | - | 2,579,291 (c) |
| Grand Total | 1759 | 2,583,293,926 | | | | | | | | | |

Notes:

(a) The Allowed amounts of Landlord Claims in the Resolved Claims table reflect the Claim amounts under the settlement agreements reached with Landlords.

(b) Allowed amounts do not take into account reduced amounts for claimants who have elected into the Convenience Class.

(c) Total NOD Amount is unknown as certain Claims cannot yet be quantified as information is still pending at this time.

4.6 In addition to the Claims set out above, 40 Claims totaling approximately \$61.4 million were filed and subsequently withdrawn by those Claimants.

4.7 The Monitor will continue to administer any further late claims in accordance with the Late Claims Order, including seeking evidence relating to late filing and obtaining the Court’s required determination, if appropriate, on whether the late-filed claim may be accepted to be filed in the Claims Process based on such evidence.

Resolution of Pharmacy Claims

4.8 An update on the status and procedural history of the claims of the former pharmacist franchisees has been provided in Prior Reports, including the Thirty-Eighth Report. At the time of Thirty-Eighth Report:

- (i) except for the T Pharmacy Claim⁶, all pharmacist franchisee claims had been resolved. In respect of the T Pharmacy Claim, a hearing was held before the Court on October 11, 2017. On December 5, 2017, the Court

⁶ On July 27, 2017, the Monitor was notified that T Pharmacy had sold its claim to D. Daniel Dimovski, on behalf of Pharmacy Franchisee of Canada Association (PFAC) in the capacity of PFAC President (the “**T Pharmacy Claimant**”).

issued an order and endorsement (the “**Unresolved Pharmacist Franchisee Order**”) declaring that the T Pharmacy Claim had been fully and finally resolved save for the amount to be deducted on account of mitigation efforts in accordance with Paragraph 78 of the Claims Officer’s October 25, 2016 Ruling (the “**Mitigation Amount**”). The Court directed that the Mitigation Amount be determined on an expedited basis and, should the T Pharmacy Claimant dispute the Monitor’s assessment of the Mitigation Amount as set out in the NRDA the Monitor issued on June 29, 2017, the T Pharmacy Claimant was to file full details of the basis of objection by January 15, 2018, with a hearing date to be scheduled thereafter. On January 15, 2018 the T Pharmacy Claimant filed its objection with the Monitor and on January 17, 2018, the T Pharmacy Claimant, the Monitor and counsel attended a scheduling call with the Court pursuant to which the hearing in respect of the Mitigation Amount was scheduled for March 22, 2018 (the “**Mitigation Hearing**”);

- (ii) on December 27, 2017, the T Pharmacy Claimant provided the Monitor with a Notice of Motion of Leave to Appeal the Unresolved Pharmacist Franchisee Order to the Court of Appeal (the “**T Pharmacy Appeal**”), which Notice of Motion was filed on January 17, 2018 (the “**Leave Motion**”);

Since the date of the Thirty-Eighth Report:

- (iii) on January 22, 2018, the Monitor and the T Pharmacy Claimant entered into a settlement and release agreement (the “**Settlement Agreement**”)

whereby: (i) the amount of the T Pharmacy Claim allowed against the estate of TCC was irrevocably settled and finalized; (ii) the T Pharmacy Claimant abandoned the T Pharmacy Appeal, filing a Notice of Abandonment on January 24, 2018; (iii) the Mitigation Hearing was vacated; and (iv) the T Pharmacy Claimant agreed that the Charging Amount⁷ will be withheld by the Monitor from the initial interim distribution in respect of the T Pharmacy Claim, pending further Order of the Court or joint direction from Bougadis, Chang LLP and the T Pharmacy Claimant.

Distribution to Pharmacist Franchisees

- (iv) on December 5, 2017, the Court issued an order and endorsement (the “**Fee Motion Order**”) with respect to a motion brought by Pharmacist Representative Counsel for approval of its fees and disbursements (the “**Fee Motion**”). The Court approved the fees, disbursements and taxes of Pharmacist Representative Counsel, and directed the Monitor to effect payment to Pharmacist Representative Counsel on the basis set out in the Fee Motion Order;
- (v) as described in the Thirty-Seventh Report, as soon as practicable following the granting of the Fee Motion Order, the Monitor would provide each Pharmacist Franchisee with a Reconciliation Statement

⁷ On April 10, 2017, the Court issued an endorsement requiring the Monitor to withhold \$25,000 from any distributions required to be made in respect of the Claim in order to address certain amounts owing by the T Pharmacy Claimant to Bougadis, Chang LLP, pending agreement between such parties or determination by an assessment officer.

together with the payment, if any, to such Pharmacist Franchisee of any reconciliation amount shown thereon. Prior to completing such reconciliation and effecting payment, the Monitor waited for the appeal period to expire in order to ensure that the Fee Motion Order was a final order and not subject to appeal. On January 15, 2018, the Monitor received confirmation from the T Pharmacy Claimant that the Fee Motion Order was not part of the T Pharmacy Appeal;

- (vi) on or about, January 24, 2018, a distribution in the amount of approximately \$825,000 was issued to Pharmacy Franchisees (other than to the T Pharmacy Claimant) along with supporting Reconciliation Statements in connection with the Fee Motion Order;
- (vii) on or about February 16, 2018, a distribution was made to the T Pharmacy Claimant in respect of the T Pharmacy Claim representing the Initial, Second and Third Interim Distributions totalling approximately 77.04% of the T Pharmacy proven claim, less the Charging Amount; and
- (viii) if the T Pharmacy Claimant and Bougadis, Chang LLP are unable to resolve the amount of the fees payable to Bougadis, Chang LLP in the short term, the Monitor may have to bring a motion before this Court to pay the Charging Amount into Court to facilitate completion of the orderly wind-down of these proceedings.

Unresolved Claims

4.9 As at the date of this report, nine NODs have been received from Claimants which remain unresolved, disputing an aggregate total of approximately \$4,400 (plus “marker claims” that have been filed for unliquidated or unspecified amounts), as compared to the total amount of \$nil allowed by the Monitor in the corresponding NRDA. The remaining unresolved NODs relate to:

- (a) Government Claims: Information with respect to Government Claims was provided in certain Prior Reports, including the Twenty-Sixth and Twenty-Seventh Reports. At the time of the Thirty-Eighth Report, the Monitor, in consultation with the Target Canada Entities was in the process of reviewing eight revised NODs that had been filed by the Department of Justice Canada on behalf of the CRA on June 27, 2016. This process continues. None of the revised NODs is expected to have a significant impact on potential recoveries to Affected Creditors described in paragraph 3.3 above. The overall resolution of matters with CRA will also necessarily address any issues that may arise for periods after June 27, 2016, including from the Target Canada Entities’ 2016 and 2017 tax filings (for the financial year-ends January 28, 2017 and February 3, 2018).

The Monitor understands that CRA has completed its audits of all tax filings up to fiscal 2016. The Target Canada Entities and CRA are working on expediting the fiscal 2017 tax filing for the year ended February 3, 2018 and the audit relating thereto, respectively. With the completion of these audits and the advancement of proceedings in the Tax Court of Canada on limited issues that may affect the assessments of a limited number of Applicants, the Target Canada Entities, in consultation with the Monitor, and CRA representatives are engaging in regular

discussions with a view to reaching a final resolution of all issues related to CRA's claims.

- (b) Employee Claims: One remaining marker claim filed against the estate on behalf of the directors and officers is expected to be withdrawn once certain other claims are resolved.

4.10 The Monitor will provide updates to the Court as the Claims Process continues to advance.

Director & Officer Claims

4.11 As described in the Thirty-Eighth Report, the eleven D&O Claims filed in these proceedings have all been resolved.

5.0 EXTENSION OF THE STAY PERIOD

5.1 Pursuant to the Order dated January 25, 2018 (Extending the Stay Period), the Stay Period is set to expire on May 15, 2018.


5.2 The Monitor supports the Applicants' motion to extend the Stay Period to December 14, 2018 for the following reasons:


- (a) the extension will provide the Monitor, in consultation with the Applicants, with the time required to: (i) continue to advance the Claims Process in accordance with the Claims Procedure Order; and (ii) facilitate further distributions to Affected Creditors with Proven Claims as Unresolved Claims are resolved;
- (b) the Applicants have sufficient liquidity through December 14, 2018;

- (c) the Applicants continue to act in good faith and with due diligence in the implementation of the Plan; and
- (d) the Monitor, the Applicants, and Target Corporation are continuing the process of discussing the steps required for completion of these CCAA Proceedings.

All of which is respectfully submitted to this Court this 8th day of May, 2018.

**Alvarez & Marsal Canada Inc., in its capacity
as Monitor of Target Canada Co., and
the other Applicants listed on Appendix A**

Per: 
Name: Douglas R. McIntosh
Title: President

Per: 
Name: Alan J. Hutchens
Title: Senior Vice-President

APPENDIX “A”

Applicants

Target Canada Co.

Target Canada Health Co.

Target Canada Mobile GP Co.

Target Canada Pharmacy (BC) Corp.

Target Canada Pharmacy (Ontario) Corp.

Target Canada Pharmacy (SK) Corp.

Target Canada Pharmacy Corp.

Target Canada Property LLC

Partnerships

Target Canada Pharmacy Franchising LP

Target Canada Mobile LP

Target Canada Property LP

APPENDIX B
THIRTY-EIGHTH REPORT OF THE MONITOR

(see attached)

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TARGET CANADA CO., TARGET CANADA HEALTH CO., TARGET CANADA MOBILE GP CO., TARGET CANADA PHARMACY (BC) CORP., TARGET CANADA PHARMACY (ONTARIO) CORP., TARGET CANADA PHARMACY CORP., TARGET CANADA PHARMACY (SK) CORP., AND TARGET CANADA PROPERTY LLC

**THIRTY-EIGHTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

JANUARY 18, 2018

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INDEX TO APPENDICES

APPENDIX A LIST OF THE APPLICANTS AND PARTNERSHIPS

APPENDIX B THIRTY-FIFTH REPORT OF THE MONITOR

1.0 INTRODUCTION

- 1.1 On January 15, 2015, Target Canada Co. (“**TCC**”) and those companies listed in Appendix A (collectively, the “**Applicants**”), together with the Partnerships also listed in Appendix A (the “**Partnerships**”, and collectively with the Applicants, the “**Target Canada Entities**”), applied for and were granted protection by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to an Order of this Court dated January 15, 2015, Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed Monitor of the Target Canada Entities in the CCAA proceedings (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 On February 11, 2015, this Court issued the Amended and Restated Initial Order (hereinafter, unless the context otherwise requires, the “**Initial Order**”), which incorporates certain changes to the Initial Order granted January 15, 2015 that were described in the Second Report of the Monitor dated February 9, 2015.
- 1.3 In connection with the CCAA Proceedings, the Monitor has provided to this Court thirty-seven reports and three supplementary reports (collectively, the “**Monitor’s Reports**”). A&M has also provided to this Court the Pre-Filing Report of the Proposed Monitor (the “**Pre-Filing Report**”) dated January 14, 2015 (together with the Monitor’s Reports, the “**Prior Reports**”). The Prior Reports, the Initial Order and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor’s website at www.alvarezandmarsal.com/targetcanada.

1.4 As described in certain of the Prior Reports, and most recently in the Thirty-Fifth Report of the Monitor (the “**Thirty-Fifth Report**”, attached hereto as Appendix B (without appendices)):

- (a) on June 2, 2016, the Court granted the Sanction and Vesting Order, which among other things, ordered and/or declared that the Second Amended and Restated Joint Plan of Compromise and Arrangement dated May 19, 2016 (the “**Second Amended Plan**” or the “**Plan**”) was sanctioned and approved pursuant to Section 6 of the CCAA. A copy of the Second Amended Plan is available on the Monitor’s website;
- (b) on June 28, 2016 (the “**Plan Implementation Date**”), the Monitor received written notice from the Target Canada Entities and the Plan Sponsor that the conditions precedent to implementation of the Second Amended Plan as set out in section 8.3 thereof had been fulfilled or waived. As such, in accordance with the Second Amended Plan and the Sanction and Vesting Order, the Monitor: (i) delivered the Monitor’s Plan Implementation Date Certificate to the Target Canada Entities; (ii) filed the Monitor’s Plan Implementation Date Certificate with the Court; and (iii) posted a copy of same to the Monitor’s website. The Monitor also provided a copy to the Service List;
- (c) in accordance with the Second Amended Plan and the Sanction and Vesting Order, on the Plan Implementation Date: (i) TCC and PropCo funded, in trust, approximately \$793.0 million and \$77.0 million, respectively, into several “cash pool” and “reserve accounts”; (ii) Target Corporation, as Plan Sponsor, funded, in trust, approximately \$25.5 million into the Landlord Guarantee Enhancement

Cash Pool Account and \$7.5 million into the Landlord Non-Guarantee Creditor Equalization Cash Pool Account; and (iii) \$34.1 million was transferred from PropCo to the Landlord Guarantee Enhancement Cash Pool Account;

- (d) on June 29 and 30, 2016, TCC issued cheques and wire payments totalling approximately \$672.5 million to Unaffected Creditors, Affected Creditors with Proven Claims, and Landlord Entities entitled to distributions from the Landlord Guarantee Enhancement Cash Pool Account and the Landlord Non-Guarantee Creditor Equalization Cash Pool Account (collectively, the “**Initial Distributions**”). The Initial Distributions to Affected Creditors represented interim distributions of approximately 55.34% of such Affected Creditors’ Proven Claims. Subsequent interim distributions totaling approximately \$830,000 were also made prior to September 30, 2016 to five claimants whose Claims were resolved in accordance with the Claims Procedure Order subsequent to the Plan Implementation Date; and
- (e) on or about October 18, 2016, TCC issued cheques and wire payments totalling approximately \$87.5 million to Affected Creditors with Proven Claims (the “**Second Interim Distributions**”) and Target Canada Property LLC issued a payment of approximately \$3.0 million to the Plan Sponsor.¹ The Second Interim Distributions represented further distributions of 12.65% of such Affected Creditors’ Proven Claims, and when combined with the Initial Distributions, equate to aggregate interim distributions to Affected Creditors to date of approximately 67.99% of such Affected Creditors’ Proven Claims.

¹ This payment was made in accordance with section 5.6(b)(ii) of the Plan, and is in respect of the Plan Sponsor’s pro-rata share of proceeds relating to the Plan Sponsor Recovery Limit Reserve.

1.5 The purpose of this Thirty-Eighth Report of the Monitor (the “**Thirty-Eighth Report**”) is to provide this Court and stakeholders with information regarding the following:

- (a) an update on the cash balances held in the “cash pool” and “reserve” accounts that were established in accordance with the Second Amended Plan and the third interim distribution that was made to creditors in mid-October, 2017;
- (b) the current status of the Claims Process; and
- (c) the Applicants’ motion for an order substantially in the form attached to the Applicants’ Motion Record dated January 18, 2018 seeking an order extending the Stay Period to May 15, 2018 (the “**Stay Extension Order**”).

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Thirty-Eighth Report, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Target Canada Entities and Target Corporation, and discussions with management of the Target Canada Entities and Target Corporation (collectively, the “**Information**”).

2.2 The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information.

2.3 Unless otherwise indicated, capitalized terms not otherwise defined in this Thirty-Eighth Report are as defined in the Prior Reports, the Second Amended Plan and the Initial Order.

2.4 Unless otherwise stated, all monetary amounts contained in this Thirty-Eighth Report are expressed in Canadian dollars.

3.0 UPDATE ON THE “CASH POOL” AND “RESERVE” ACCOUNTS

3.1 On or about October 10, 2017, TCC issued cheques and wire payments totalling approximately \$64.1 million to Affected Creditors with Proven Claims (the “**Third Interim Distributions**”) and Target Canada Property LLC issued a payment of approximately \$2.1 million to the Plan Sponsor.² The Third Interim Distributions represented further distributions of 9.05% of such Affected Creditors’ Proven Claims, and when combined with the Initial Distributions and the Second Interim Distributions, equate to aggregate interim distributions to Affected Creditors to-date of approximately 77.04% of such Affected Creditors’ Proven Claims. The various “cash pool” and “reserve” accounts as at the Plan Implementation Date, and after the Initial Distributions, Second Interim Distributions, Third Interim Distributions and other administrative disbursements, are summarized below (with the “August 19, 2017” column being the balances as at the date of the Thirty-Fifth Report):

² This payment was made in accordance with section 5.6(b)(ii) of the Plan, and is in respect of the Plan Sponsor’s pro-rata share of proceeds relating to the Plan Sponsor Recovery Limit Reserve.

| (\$ in 000's CAD) | Balance on PID | Initial Distribution | Receipts/ Subsequent Distributions/ Administrative Disbursements | Balance September 15, 2016 | Transfers Prior to | | Receipts/ Subsequent Distributions/ Administrative Disbursements | Balance January 16, 2017 |
|--|----------------|----------------------|--|----------------------------|-----------------------------|-----------------|--|--------------------------|
| | | | Second Interim Distribution | | Second Interim Distribution | | | |
| Target Canada Co. | | | | | | | | |
| TCC Cash Pool Account | 441,220 | (441,039) | 700 | 881 | 88,056 | (87,469) | 42,759 | 44,227 |
| TCC Disputed Claims Reserve Account | 197,907 | - | (828) | 197,079 | (88,056) | - | (61,741) | 47,283 |
| Administrative Reserve Account [1] | 12,900 | (177) | (1,869) | 10,854 | - | - | (2,636) | 8,218 |
| Landlord Guarantee Creditor Base Claim Cash Pool Account | 140,745 | (140,745) | - | - | - | - | - | - |
| Landlord Guarantee Enhancement Cash Pool Account | 59,532 | (59,532) | - | - | - | - | - | - |
| Landlord Non-Guarantee Creditor Equalization Cash Pool Account | 7,521 | (7,521) | - | - | - | - | - | - |
| Target Canada Co. Balance | 859,825 | (649,013) | (1,996) | 208,815 | - | (87,469) | (21,618) | 99,728 |
| Target Canada Property LLC | | | | | | | | |
| PropCo Cash Pool Account | 10,548 | (10,533) | - | 15 | - | - | - | 15 |
| PropCo Disputed Claims Reserve Account | 8,895 | - | - | 8,895 | - | - | - | 8,895 |
| Plan Sponsor Recovery Limit Reserve Account | 23,427 | (12,966) | - | 10,461 | - | (2,964) | - | 7,498 |
| Target Canada Property LLC Balance | 42,870 | (23,499) | - | 19,371 | - | (2,964) | - | 16,408 |
| TOTAL | 902,695 | (672,512) | (1,996) | 228,186 | - | (90,433) | (21,618) | 116,136 |

| (\$ in 000's CAD) | Balance January 16, 2017 | Receipts/ Subsequent Distributions/ Administrative Disbursements | Balance April 12, 2017 | Receipts/ Subsequent Distributions/ Administrative Disbursements | Balance August 19, 2017 | Transfers Prior to Third Interim Distribution | | Receipts/ Subsequent Distributions/ Administrative Disbursements | Balance January 8, 2018 |
|--|--------------------------|--|------------------------|--|-------------------------|---|-----------------|--|-------------------------|
| | | Third Interim Distribution | | Third Interim Distribution | | | | | |
| Target Canada Co. | | | | | | | | | |
| TCC Cash Pool Account | 44,227 | 2,664 | 46,891 | 16,508 | 63,399 | 1,500 | (64,091) | 2,030 | 2,838 |
| TCC Disputed Claims Reserve Account | 47,283 | (35) | 47,248 | (10,420) | 36,827 | (1,500) | - | (4,995) | 30,332 |
| Administrative Reserve Account [1] | 8,218 | (1,287) | 6,931 | (1,173) | 5,758 | - | - | (1,230) | 4,528 |
| Landlord Guarantee Creditor Base Claim Cash Pool Account | - | - | - | - | - | - | - | - | - |
| Landlord Guarantee Enhancement Cash Pool Account | - | - | - | - | - | - | - | - | - |
| Landlord Non-Guarantee Creditor Equalization Cash Pool Account | - | - | - | - | - | - | - | - | - |
| Target Canada Co. Balance | 99,728 | 1,342 | 101,070 | 4,915 | 105,984 | - | (64,091) | (4,194) | 37,699 |
| Target Canada Property LLC | | | | | | | | | |
| PropCo Cash Pool Account | 15 | - | 15 | - | 15 | - | - | - | 15 |
| PropCo Disputed Claims Reserve Account | 8,895 | - | 8,895 | - | 8,895 | - | - | - | 8,895 |
| Plan Sponsor Recovery Limit Reserve Account | 7,498 | - | 7,498 | - | 7,498 | - | (2,120) | - | 5,378 |
| Target Canada Property LLC Balance | 16,408 | - | 16,408 | - | 16,408 | - | (2,120) | - | 14,288 |
| TOTAL | 116,136 | 1,342 | 117,478 | 4,915 | 122,393 | - | (66,211) | (4,194) | 51,987 |

Notes:

[1] The Administrative Reserve Account balance includes approximately \$798,000 related to the 10% holdback on Pharmacy Claims.

3.2 The changes to the above table relative to the similar table included in the Thirty-Fifth Report are:

- (a) TCC Cash Pool Account: The cash balance decreased by approximately \$60.6 million due primarily to TCC issuing the Third Interim Distributions in the amount of \$64.1 million. The decrease was partially offset by increases to the account for: (i) the resolution and payment of distributions of approximately \$1.7 million of previously Disputed Claims and the corresponding transfer in of approximately \$3.2 million from the TCC Disputed Claims Reserve Account to the TCC Cash Pool Account (representing the excess of amounts reserved for previously Unresolved Claims relative to the amount at which such Claims were

ultimately resolved); and (ii) the receipt of approximately \$400,000 in miscellaneous refunds.

- (b) TCC Disputed Claims Reserve Account: The cash balance decreased by approximately \$6.5 million related to: (i) the resolution and payment of distributions of approximately \$1.7 million on previously Disputed Claims (claimants with subsequently resolved Claims have received their Initial, Second and Third Interim Distributions totalling approximately 77.04%, with the balance being transferred to the TCC Cash Pool Account); (ii) the corresponding transfer out of approximately \$3.2 million to the TTC Cash Pool Account; and (iii) in accordance with the Fee Motion Order described below, a payment of approximately \$926,000 to Strosberg Sasso Sutts LLP, in its capacity as Court-appointed representative counsel for pharmacist franchisees (“**Pharmacist Representative Counsel**”), in connection with TCC’s agreed contribution for fees, disbursements and taxes incurred by pharmacist franchisees represented by Pharmacist Representative Counsel.³
- (c) Administrative Reserve Account: The cash balance decreased by approximately \$1.2 million related primarily to administrative disbursements of \$1.4 million for professional fees and Shared Services. This decrease was partially offset by a \$200,000 transfer into the account in connection with a 10% holdback in respect of fees of Pharmacist Representative Counsel that was withheld from certain pharmacy claimants on the issuance of their Third Interim Distributions.

³ Referred to as the “TCC Contribution” in the Monitor’s Thirty-Seventh Report dated September 27, 2017 relating to the Fee Motion.

3.3 The Monitor has prepared an updated illustrative range of estimated recoveries under the Second Amended Plan, which is summarized in the table below and is based on information available as at January 8, 2018 (the “**Illustrative Recoveries Analysis**”). The Illustrative Recoveries Analysis has been prepared based on the terms of the Second Amended Plan and the current status of Claims filed in the Claims Process. The Monitor cautions that the Illustrative Recoveries Analysis may change (which change could be material) as: (a) Unresolved Claims continue to be reviewed and assessed, including “marker claims” that have been filed for unliquidated or unknown amounts; and (b) the Claims Process continues to advance, including the resolution of Disputed Claims, in accordance with the Claims Procedure Order.

| | Illustrative Scenario #1 - LOW | Illustrative Scenario #2 - HIGH |
|--|-----------------------------------|------------------------------------|
| (\$ in 000's CAD) | | |
| PROPCO | | |
| ESTIMATED CASH AVAILABLE FOR DISTRIBUTION | | |
| Propco Cash | \$ 76,950 | \$ 76,950 |
| PROCEEDS AVAILABLE FOR DISTRIBUTION | <u>76,950</u> | <u>76,950</u> |
| CLAIMS FILED AGAINST PROPCO/PROPERTY LP | | |
| Total Third Party Claims Against Propco and Property LP | 13,112 | 10,533 |
| PropCo Intercompany Claims (recontributed into Landlord Guarantee Settlement Amount) | 34,081 | 34,081 |
| Estimated Payments under Plan Sponsor Propco Recovery Reserve Limit | 19,405 | 19,625 |
| ESTIMATED NET PROCEEDS AVAILABLE FOR TCC AFTER DISTRIBUTIONS | <u>10,352</u> | <u>12,712</u> |
| TARGET CANADA CO | | |
| ESTIMATED CASH AVAILABLE FOR DISTRIBUTION | | |
| Target Canada Co. Cash | 780,000 | 783,500 |
| CRA and RQ Tax Refunds Received | 9,182 | 9,182 |
| Other Receipts | 466 | 466 |
| Propco Cash (from above) | 10,352 | 12,712 |
| ESTIMATED PROCEEDS AVAILABLE FOR DISTRIBUTION | <u>800,000</u> | <u>805,860</u> |
| ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITORS | | |
| Secured Claims and Unaffected Creditor Claims | 60,242 | 60,242 |
| Convenience Class Claims - < \$25,000 | 5,993 | 5,993 |
| Convenience Class Opt-In - Claim Value < \$35,000 | 1,550 | 1,550 |
| TOTAL ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITOR CLAIMS | <u>67,785</u> | <u>67,785</u> |
| ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED AND CONVENIENCE CLASS CLAIMS | <u>732,215</u> | <u>738,075</u> |
| LANDLORD GUARANTEE CREDITOR SETTLEMENT AMOUNTS | | |
| Landlord Guarantee Creditor Base Claim Amounts (Pre-filing and Restructuring) | 140,745 | 140,745 |
| Landlord Guarantee Enhancement Amounts | 59,532 | 59,532 |
| Total Distribution to Landlord Guarantee Creditors | 200,276 | 200,276 |
| Less: | | |
| Plan Sponsor Contribution to the Landlord Guarantee Enhancement Cash Pool | (25,451) | (25,451) |
| Plan Sponsor Contribution from the PropCo Intercompany Claims (from above) | (34,081) | (34,081) |
| NET DISTRIBUTION TO LANDLORD GUARANTEE CREDITORS AFTER PLAN SPONSOR CONTRIBUTIONS | <u>140,745</u> | <u>140,745</u> |
| ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS | <u>(A) 591,471</u> | <u>597,330</u> |
| ESTIMATED ALLOWABLE CLAIMS | | |
| Landlord Non-Guarantee Creditor Claim Amounts (Pre-Filing, Restructuring and Other) | 190,035 | 190,035 |
| Other Affected Creditor Claims | 415,583 | 414,583 |
| Total Affected Creditor Claims | 605,618 | 604,618 |
| Total Intercompany Claims | 108,464 | 108,464 |
| ESTIMATED ALLOWABLE TOTAL CLAIMS EXCLUDING SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS | <u>(B) 714,082</u> | <u>713,082</u> |
| RECOVERY % (A/B) | 82.8% | 83.8% |

3.4 Based on the Illustrative Recoveries Analysis (and subject to the important qualifications noted in paragraph 3.3 above), the Monitor now estimates that Affected Creditors with Proven Claims will ultimately receive aggregate distributions under the Second Amended

Plan in the range of approximately 82.8% to 83.8%⁴ of such Affected Creditors' Proven Claims.

4.0 CLAIMS PROCESS UPDATE

4.1 The Monitor has provided an update on the status of the Claims Process in a number of the Prior Reports, including most recently in the Thirty-Fifth Report.

Status of Claims Review and Assessment

4.2 As at January 9, 2018, 1,758 Claims have been filed with the Monitor, totalling approximately \$2.6 billion, excluding Intercompany Claims and withdrawn claims, and including those claims filed with the Monitor in connection with the Late Claims Motion and subsequent to the Late Claims Order (as described and defined below). As summarized in the tables below:⁵

- (a) 1,748 Claims have been reviewed, reconciled, resolved and allowed (or deemed allowed or disallowed as the case may be), as the time for a Claimant to respond to a Notice of Revision or Disallowance (“**NRDA**”) issued by the Monitor has expired) (collectively, the “**Resolved Claims**”); and
- (b) 10 Claims are subject to a Notice of Dispute (“**NOD**”) where a NOD has been received by the Monitor from the Claimant in response to a NRDA issued by the Monitor, which NOD is under review by the Monitor or remains unresolved (the

⁴ Reflecting the Court's direction to accept the Bell Amended Claims for review and consideration and the full and final amount of the Amended Claims as referenced in paragraph 4.11 below.

⁵ The tables include late-filed claims that were the subject of the Late Claims Motion and those that have been permitted by the Court to be filed with the Monitor subsequent to the Late Claims Order.

“**NOD Stage**”), including one pharmacist franchisee claim (collectively, the “**Unresolved Claims**”).

- 4.3 In connection with the Monitor’s November 2016 motion for advice and directions regarding late claims (the “**Late Claims Motion**”), on March 1, 2017, the Court issued an order, among other things: (i) permitting certain identified late claims to be filed with the Monitor; and (ii) establishing the procedure for the filing of claims at this stage in the proceedings (the “**Late Claims Order**”). In accordance with the Late Claims Order, five claimants identified therein as the “Identified Claimants” were permitted to file proofs of claim for determination in the Claims Process. Two additional claimants were instructed to submit additional evidence to the Court for a determination as to whether their claims are to be permitted to be filed with the Monitor.
- 4.4 Since the issuance of the Late Claims Order, additional evidence was submitted by one of the two identified claimants, and three new late claimants seeking to file claims each provided an evidentiary record to the Monitor for consideration by the Court. After considering each respective claimants’ evidence submitted in accordance with the Late Claims Order, by endorsement dated April 12, 2017, the Court permitted these additional late claimants to file claims for determination in the Claims Process.
- 4.5 As at January 9, 2018, a summary of the Resolved Claims and Unresolved Claims is as follows:

RESOLVED CLAIMS

| Category | Filed Amount | | Allowed | | | Deemed Disallowed | | | Total | |
|--------------|--------------|----------------------|-------------|----------------------|------------------------|-------------------|------------------|----------|--------------|--------------------|
| | # | \$ | # | Filed | Allowed | # | Filed | Allowed | # | \$ |
| | | | | \$ | \$ | | \$ | \$ | | |
| Landlord | (a) 96 | 1,855,279,112 | 86 | 1,855,279,100 | 338,293,548 | 10 | 12 | - | 96 | 338,293,548 |
| Vendor | 1420 | 549,434,363 | 1395 | 545,660,366 | 449,683,061 | 25 | 3,773,997 | - | 1,420 | 449,683,061 |
| Pharmacist | 94 | 155,559,889 | 94 | 155,559,889 | 26,251,889 | - | - | - | 94 | 26,251,889 |
| Government | 5 | 7,922,787 | 4 | 7,922,786 | 7,870,409 | 1 | 1 | - | 5 | 7,870,409 |
| Litigation | 69 | 9,835,332 | 59 | 8,755,267 | 617,333 | 10 | 1,080,066 | - | 69 | 617,333 |
| Employee | 62 | 869,677 | 18 | 536,484 | 381,286 | 44 | 333,193 | - | 62 | 381,286 |
| Other | 2 | 2 | - | - | - | 2 | 2 | - | 2 | - |
| Total | 1748 | 2,578,901,163 | 1656 | 2,573,713,892 | 823,097,526 (b) | 92 | 5,187,271 | - | 1,748 | 823,097,526 |

UNRESOLVED CLAIMS

| Category | Filed Amount | | Monitor Review | | NRDA Stage | | | NOD Stage | | | |
|--------------------|--------------|----------------------|----------------|----------|------------|----------|----------|-----------|------------------|----------------|----------------------|
| | # | \$ | # | Filed | # | Filed | Allowed | # | Filed | Allowed | NOD |
| | | | | \$ | | \$ | \$ | | \$ | \$ | \$ |
| Landlord | - | - | - | - | - | - | - | - | - | - | - |
| Vendor | - | - | - | - | - | - | - | - | - | - | - |
| Pharmacist | 1 | 4,374,229 | - | - | - | - | - | 1 | 4,374,229 | 173,878 | 4,374,229 |
| Government | 8 | 4,408 | - | - | - | - | - | 8 | 4,408 | - | 2,579,290 |
| Litigation | - | - | - | - | - | - | - | - | - | - | - |
| Employee | 1 | 1 | - | - | - | - | - | 1 | 1 | - | 1 |
| Other | - | - | - | - | - | - | - | - | - | - | - |
| Total | 10 | 4,378,638 | - | - | - | - | - | 10 | 4,378,638 | 173,878 | 6,953,520 (c) |
| Grand Total | 1758 | 2,583,279,800 | | | | | | | | | |

Notes:

- (a) The Allowed amounts of Landlord Claims in the Resolved Claims table reflect the Claim amounts under the settlement agreements reached with Landlords.
- (b) Allowed amounts do not take into account reduced amounts for claimants who have elected into the Convenience Class.
- (c) Total NOD Amount is unknown as certain Claims cannot yet be quantified as information is still pending at this time.

4.6 In addition to the Claims set out above, 40 Claims totaling approximately \$61.4 million were filed and subsequently withdrawn by those Claimants.

4.7 The Monitor will continue to administer any further late claims in accordance with the Late Claims Order, including seeking evidence relating to late filing and obtaining the Court’s required determination on whether the late filed claim may be accepted to be filed in the Claims Process based on such evidence. The Monitor has not received any evidence in support of additional late claims since the date of the Thirty-Fifth Report.

Unresolved Claims

4.8 As at the date of this report, 10 NODs have been received from Claimants which remain unresolved, disputing an aggregate total of approximately \$7.0 million (plus “marker

claims” that have been filed for unliquidated or unspecified amounts), as compared to the total amount of approximately \$174,000 allowed by the Monitor in the corresponding NRDA. The significant remaining unresolved NODs relate to:

- (a) Government Claims: Information with respect to Government Claims was provided in certain Prior Reports, including the Twenty-Sixth and Twenty-Seventh Reports. At the time of the Thirty-Fifth Report, the Monitor, in consultation with the Target Canada Entities was in the process of reviewing eight revised NODs that had been filed by the Department of Justice Canada on behalf of the CRA on June 27, 2016. This process continues. None of the revised NODs is expected to have a significant impact on potential recoveries to Affected Creditors described in paragraph 3.3 above. The overall resolution of matters with CRA will also necessarily address any issues that may arise for periods after June 27, 2016, including from the Target Canada Entities’ 2016 and 2017 tax filings (for the financial year-end January 28, 2017 and February 3, 2018).

Since the time of the Thirty-Fifth Report, the Monitor and the Target Canada Entities have continued to engage in regular discussions with CRA representatives with a view to reaching a final resolution of all issues related to CRA’s claims, including any issues for periods after June 27, 2016. The CRA has advised that they have not concluded certain audits of the Target Canada Entities and are continuing their work in this regard.

- (b) Pharmacist Claims: An update on the status and procedural history of the claims of the former pharmacist franchisees has been provided in Prior Reports, including the Thirty-Fifth Report. At the time of Thirty-Fifth Report:
- (i) A litigation schedule for the claims appeal relating to the five remaining unresolved pharmacist franchisee claims (from the 93 claims filed by pharmacist franchisees) had been set, culminating in a February 23, 2017 appeal hearing before the Court.
 - (ii) On May 19, 2017, the Court issued an endorsement with its ruling on the appeal filed by the five unresolved pharmacist franchisee claimants. In the endorsement, the Court dismissed the appeals.
 - (iii) Subsequent to the ruling issued by the Court, the Monitor reassessed the Claims of the five remaining pharmacist franchisee claimants and issued revised NRDA's in respect of such Claims that were consistent with the principles underlying the Monitor's methodology for assessing the Pharmacist Franchisees' claims and were reflective of the rulings of the Claims Officer. Except for T Pharmacy, all remaining pharmacist franchisee claimants accepted their revised respective NRDA.
 - (iv) On July 27, 2017, the Monitor was notified that T Pharmacy had sold its claim to D. Daniel Dimovski, on behalf of Pharmacy Franchisee of Canada Association (PFAC) in the capacity of PFAC President (the "**T Pharmacy Claimant**"). Mr. Dimovski continues to self-represent the T Pharmacy claim and has not agreed to the Monitor's determination that was reflective of the rulings of the Claims Officer.

- (v) The Monitor was seeking the assistance of the Court to address matters relating to the T Pharmacy claim, the last remaining unresolved pharmacist franchisee claim (the “**Unresolved Pharmacist Franchisee Claim**” or the “**T Pharmacy Claim**”).

Since the date of the Thirty-Fifth Report:

- (vi) A hearing was held before the Court on October 11, 2017 relating to the Unresolved Pharmacist Franchisee Claim. On December 5, 2017, the Court issued an order and endorsement (the “**Unresolved Pharmacist Franchisee Order**”) declaring that the T Pharmacy Claim has been fully and finally resolved save for the amount to be deducted on account of mitigation efforts in accordance with Paragraph 78 of the Claims Officer’s October 25, 2016 Ruling (the “**Mitigation Amount**”). The Court directed that the Mitigation Amount be determined on an expedited basis and, should the T Pharmacy Claimant dispute the Monitor’s assessment of the Mitigation Amount as set out in the NRDA the Monitor issued on June 29, 2017, the T Pharmacy Claimant was to file full details of the basis of objection by January 15, 2018, with a hearing date to be scheduled thereafter. On January 15, 2018, the T Pharmacy Claimant filed their objection with the Monitor and on January 17, 2018, the T Pharmacy Claimant, the Monitor and counsel attended a scheduling call with the Court pursuant to which the hearing in respect of the Mitigation Amount has been scheduled for March 22, 2018.

- (vii) On December 27, 2017, the T Pharmacy Claimant provided the Monitor with a Notice of Motion of Leave to Appeal the Unresolved Pharmacist Franchisee Order to the Court of Appeal (the “**T Pharmacy Appeal**”). The Monitor understands that the T Pharmacy Claimant is in the process of filing the T Pharmacy Appeal with the Court of Appeal. A timeline has not yet been established with respect to such motion for leave to appeal.
- (viii) On September 27, 2017, the Thirty-Seventh Report of the Monitor (the “**Thirty-Seventh Report**”) was filed in connection with the motion brought by Pharmacist Representative Counsel for approval of its fees and disbursements (the “**Fee Motion**”) and in connection with the Endorsement of the Court dated September 13, 2017. The Fee Motion was heard on October 11, 2017 (adjourned from September 13, 2017).
- (ix) On December 5, 2017, the Court issued an order and endorsement with respect to the Fee Motion (the “**Fee Motion Order**”). The Court approved the fees, disbursements and taxes of Pharmacist Representative Counsel, and directed the Monitor to effect payment to Pharmacist Representative Counsel on the basis set out in the Fee Motion Order.
- (x) The Monitor completed a reconciliation of the fees, disbursements and taxes owing to Pharmacist Representative Counsel in accordance with the process described in the Thirty-Seventh Report and the Fee Motion Order. On December 12, 2017, payment was made by TCC to Pharmacist Representative Counsel.

- (xi) As previously indicated, on or about October 10, 2017, the Applicants made the Third Interim Distributions. Because of the timing of the hearing of the Fee Motion (heard October 11, 2017), a reserve was held back from the Third Interim Distributions to Pharmacist Franchisees pending a decision on the Fee Motion or, in the case of the Appeal Group, the Third Interim Distributions were not made as to do so would not allow a sufficient reserve regarding Pharmacist Representative Counsel's fees and disbursements.

- (xii) As described in the Thirty-Seventh Report, as soon as practicable following the granting of the Fee Motion Order, the Monitor would provide each Pharmacist Franchisee with a Reconciliation Statement together with the payment, if any, to such Pharmacist Franchisee of any reconciliation amount shown thereon. Prior to completing such reconciliation and effecting payment, the Monitor waited for the appeal period to expire in order to ensure that the Fee Motion Order was a final order and not subject to appeal. On January 15, 2018, the Monitor received confirmation from the T Pharmacy Claimant that the Fee Motion Order was not part of the T Pharmacy Appeal and as such, reconciliation and payment to applicable pharmacist franchises is anticipated to be completed on or about mid-February.

- (c) Employee Claims: One remaining marker claim filed against the estate on behalf of the directors and officers is expected to be withdrawn once certain other claims are resolved.

Bell's Amended Claims

- 4.9 As described in the Monitor's Thirty-Sixth Report (the "**Thirty-Sixth Report**") and in connection with the Monitor's motion for advice and directions heard on September 13, 2017, Bell Canada ("**Bell Canada**") and BCE Nexxia Corporation ("**Nexxia**") (together, "**Bell**") had filed amended claims (the "**Bell Amended Claims**") requesting a significant increase on their claims that had previously been resolved and become Proven Claims in accordance with the Claims Procedure Order (the "**Original Claims**").
- 4.10 Bell had advised that it discovered errors in the method in which Bell Canada and Nexxia quantified their Original Claims, and sought to file the Bell Amended Claims to address such errors. Bell had claimed an additional amount of approximately \$4,100,000 in the proposed amended claims, almost double the Original Claims, as summarized below.

| Claim # | Entity Name | Allowed Claim Amount | Bell Proposed Revised Claim Amount | Bell Proposed Increase in Claim Value |
|--------------|------------------------|------------------------|------------------------------------|---------------------------------------|
| 1667 | Bell Canada | \$ 4,019,455.12 | \$ 7,286,040.00 | \$ 3,266,584.88 |
| 1356 | BCE Nexxia Corporation | 693,264.82 | 1,495,985.24 | 802,720.42 |
| TOTAL | Bell Claims | \$ 4,712,719.94 | \$ 8,782,025.24 | \$ 4,069,305.30 |

- 4.11 On November 10, 2017, the Court issued an endorsement directing the Monitor to accept the Bell Amended Claims for review and consideration. The endorsement also directed Bell to cover the reasonable costs of the Monitor, Monitor's counsel and Target Canada incurred as a result of Bell's errors. The Monitor, in conjunction with representatives from Bell, worked towards resolving the Bell Amended Claims in a timely fashion. On December 22, 2017, the Monitor and Bell entered into a settlement and release agreement (the "**Bell Settlement Agreement**") fully and finally settling the Bell Amended Claims as summarized below:

| Claim # | Entity Name | Original Allowed Claim Amount | Amended Claim Amount | Increase in Claim Value |
|--------------|------------------------|-------------------------------|----------------------|-------------------------|
| 1667 | Bell Canada | 4,019,455.12 | 6,925,000.00 | 2,905,544.88 |
| 1356 | BCE Nexxia Corporation | 693,264.82 | 1,495,985.24 | 802,720.42 |
| TOTAL | Bell Claims | 4,712,719.94 | 8,420,985.24 | 3,708,265.30 |

4.12 In addition to fully and finally settling the amount of the Bell Amended Claims (such that they are final and binding for all purposes and not subject to any further dispute, appeal, revision or amendment), Bell and the Monitor came to an agreement on the reasonable costs arising from Bell's errors to be paid by Bell (the "**Bell Cost Payment**"). Accordingly, an interim distribution was issued to Bell on December 28, 2017, after deducting the Bell Cost Payment therefrom, to account for the increase in their claim value. Bell has received the equivalent of all interim distributions issued to date.

4.13 The Monitor will provide updates to the Court as the Claims Process continues to advance.

Director & Officer Claims

4.14 A summary of the D&O Claims received by the Monitor is provided below:

- (a) eleven D&O Claims were filed, asserting a total of approximately \$567,000;
- (b) nine of the eleven D&O Claims were filed as "marker claims" for unspecified, unliquidated amounts; and
- (c) of the eleven D&O Claims filed, six were subsequently withdrawn by the Claimants.

- 4.15 The Monitor, in consultation with the Target Canada Entities and legal counsel to the Directors and Officers, reviewed the remaining five filed D&O Claims and issued NRDA's to each of the Claimants disallowing the claims in full.
- 4.16 With respect to the five D&O Claims disallowed in full: (i) two claimants did not respond to the NRDA and the claims have been deemed disallowed pursuant to the Claims Procedure Order; (ii) two claimants responded with a NOD, but have subsequently withdrawn their claims; and (iii) one claimant responded with an NOD filed as a "marker claim" for unspecified, unliquidated amounts relating to TCC's STIP, which claim has been resolved and dismissed by the Claims Officer.
- 4.17 All D&O Claims filed in these proceedings have now been resolved.


5.0 EXTENSION OF THE STAY PERIOD


- 5.1 Pursuant to the Order dated September 13, 2017 (Extending the Stay Period and Discharging Employee Representative Counsel), the Stay Period is set to expire on January 26, 2018.
- 5.2 The Monitor supports the Applicants' motion to extend the Stay Period to May 15, 2018 for the following reasons:
- (a) the extension will provide the Monitor, in consultation with the Applicants, with the time required to: (i) continue to advance the Claims Process in accordance with the Claims Procedure Order; and (ii) facilitate further distributions to Affected Creditors with Proven Claims as Unresolved Claims are resolved;
 - (b) the Applicants have sufficient liquidity through May 15, 2018;

- (c) the Applicants continue to act in good faith and with due diligence in the implementation of the Plan; and
- (d) the Monitor, the Applicants, and Target Corporation are continuing the process of discussing the steps required for completion of these CCAA Proceedings.

All of which is respectfully submitted to this Court this 18th day of January, 2018.

**Alvarez & Marsal Canada Inc., in its capacity
as Monitor of Target Canada Co., and
the other Applicants listed on Appendix A**

Per: 
Name: Douglas R. McIntosh
Title: President

Per: 
Name: Alan J. Hutchens
Title: Senior Vice-President

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TARGET CANADA CO., TARGET CANADA HEALTH CO., TARGET CANADA MOBILE GP CO., TARGET CANADA PHARMACY (BC) CORP., TARGET CANADA PHARMACY (ONTARIO) CORP., TARGET CANADA PHARMACY CORP., TARGET CANADA PHARMACY (SK) CORP., AND TARGET CANADA PROPERTY LLC

Court File No.: CV-15-10832-00CL

ONTARIO
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COMMERCIAL LIST
Proceeding commenced at Toronto

**THIRTY-EIGHTH REPORT OF THE
MONITOR**

GOODMANS LLP
Barristers & Solicitors
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, Canada M5H 2S7

Alan Mark LSO#: 21772U
amark@goodmans.ca

Jay Carfagnini LSO#: 22293T
jcarfagnini@goodmans.ca

Melaney Wagner LSO#: 44063B
mwagner@goodmans.ca

Tel: 416.979.2211
Fax: 416.979.1234

Lawyers for the Monitor

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TARGET CANADA CO., TARGET CANADA HEALTH CO., TARGET CANADA MOBILE GP CO., TARGET CANADA PHARMACY (BC) CORP., TARGET CANADA PHARMACY (ONTARIO) CORP., TARGET CANADA PHARMACY CORP., TARGET CANADA PHARMACY (SK) CORP., AND TARGET CANADA PROPERTY LLC

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THIRTY-NINTH REPORT OF THE
MONITOR

GOODMANS LLP
Barristers & Solicitors
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, Canada M5H 2S7

Alan Mark LSO#: 21772U
amark@goodmans.ca

Jay Carfagnini LSO#: 22293T
jcarfagnini@goodmans.ca

Melaney Wagner LSO#: 44063B
mwagner@goodmans.ca

Tel: 416.979.2211
Fax: 416.979.1234

Lawyers for the Monitor